BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

Order Instituting Rulemaking into Implementation of Public Utilities Code Section 390.	Rulemaking 99-11-022 (Filed November 18, 1999)
Order Instituting Rulemaking to Promote Consistency in Methodology and Input Assumptions in Commission Applications of Short-run and Long-Run Avoided Costs, Including Pricing for Qualifying Facilities.	Rulemaking 04-04-025 (Filed April 22, 2004)

JOINT ADMINISTRATIVE LAW JUDGE'S RULING ON SHORT RUN AVOIDED COST PRICING FOR QUALIFYING FACILITIES

Summary

This joint Administrative Law Judges' (ALJ) Ruling transfers short-run avoided cost (SRAC) pricing issues from Rulemaking (R.) 99-11-022 to R.04-04-025, except for those issues addressing the remanded order of the California Court of Appeal for the Second Appellate District (the Court) regarding SRAC pricing between December 2000 and March 2001 (the Remand Period), and Pacific Gas and Electric Company's (PG&E) Petition for Modification of Decision (D.) 01-03-067, filed December 15, 2004 (Petition).

Background

In Decision (D.) 01-03-067, adopted March 27, 2001, the Commission revised the SRAC formula and gas price indices for each of the investor-owned

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utilities (IOU). D.01-03-067 replaced the Topock[1] gas index used in the IOU SRAC formulas with a gas index based on Malin,[2] plus intrastate gas transportation, and adopted an incremental energy rate (IER) and operational and maintenance (O&M) adder in the SRAC formula. The Commission also directed parties to provide testimony on how the IER and the O&M adder should be calculated. Testimony was provided in May 2001, and hearings were held in June 2001.

On June 13, 2001, the Commission adopted D.01-06-015 pre-approving three voluntary qualifying facility (QF) contract amendments, including an amendment for fixed energy prices. Subsequently, numerous contract amendments were approved by the Commission between IOUs and QFs, primarily adopting the fixed energy price amendment, and in some instances, different values for the IER and O&M adder.[3] As the energy pricing mechanism for QFs evolved, the Commission adopted D.02-08-071[4] (August 22, 2002) in R.01-10-024[5] which continued the current SRAC pricing policy. On December 18, 2003, the Commission adopted D.03-12-062 (R.01-10-024). In that decision, the Commission expressed its concern that "the SRAC pricing formula may need to be revised in light of the current energy market. Therefore, the Commission

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[1] Topock is located at the California/Arizona border and is an entry point for gas into Southern California Gas Company's system.

[2] Malin is located at the California/Oregon border and is an entry point for gas into PG&E's gas system.

[3] *See for example*, D.01-07-031 in R.99-11-022 and D.03-04-001 in A.02-01-035.

[4] *See* p. 32.

[5] R.01-10-024 is a rulemaking to establish policies and cost recovery mechanisms for generation procurement and renewable resource development.

should carefully consider how to modify the SRAC methodology and whether to seek legislative changes to Pub. Util. Code § 390."[6]

On April 22, 2004, the Commission adopted R.04-04-025, addressing SRAC and long-run avoided costs, including SRAC pricing for QFs. The Assigned Commissioner's Ruling and Scoping Memo in R.04-04-025 dated January 4, 2005, cites D.03-12-062 and D.04-01-050[7] and states that a critical issue to be addressed in the near term in this proceeding is SRAC pricing for QFs.[8]

Discussion

The testimony and calculations that developed IER and O&M adder values in R.99-11-022 is over three years old, and it would be unreasonable to utilize this out-of-date information to revise the SRAC pricing formula. Alternatively, requesting additional testimony and conducting hearings with updated information in R.99-11-022 would be an inefficient use of parties' and Commission staff resources given that R.04-04-025 is intended to develop SRAC pricing for QFs.

After conferring on this matter, the assigned ALJs agree that R.04-04-025 is the most appropriate proceeding to consider testimony on this issue. Therefore, parties are advised that any revisions to the current SRAC pricing formula for QFs will be addressed in R.04-04-025.

Testimony, exhibits, briefs and other documents regarding the determination of IER and O&M adder that were received in R.99-11-022 will remain in the record for that proceeding, but are available as necessary.

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[6] D.04-04-037, p. 24 (OP 1), which modified D.03-12-062.

[7] *See* p. 160.

[8] Scoping Memo, p. 4.

Although this ruling moves SRAC pricing issues into R.04-04-025, the question remanded by the Court regarding whether SRAC prices were correct during the Remand Period and PG&E's Petition remain as matters to be decided in R.99-11-022. Accordingly, all comments, briefs and other documentation submitted on the remanded issue and PG&E's Petition will remain in the R.99-11-022 proceeding.

Therefore, **IT IS RULED** that:

1. All matters regarding SRAC pricing for QFs will be determined in R.04-04-025, as discussed above.

2. The issue of correct SRAC pricing during the Remand Period and PG&E's Petition will be determined in R.99-11-022.

Dated January 21, 2005, at San Francisco, California.

/s/ JULIE M. HALLIGAN   /s/ BRUCE DEBERRY
Julie M. Halligan   Bruce DeBerry
Administrative Law Judge   Administrative Law Judge

CERTIFICATE OF SERVICE

I certify that I have by mail, and by electronic mail to the parties to which an electronic mail address has been provided, this day served a true copy of the original attached Joint Administrative Law Judge's Ruling Short Run Avoided Short Run Avoided Cost Pricing for Qualifying Facilities on all parties of record in these proceedings or their attorneys of record.

Dated January 21, 2005, at San Francisco, California.

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/s/ JANET V. ALVIAR

Janet V. Alviar

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N O T I C E

Parties should notify the Process Office, Public Utilities Commission, 505 Van Ness Avenue, Room 2000, San Francisco, CA 94102, of any change of address to ensure that they continue to receive documents. You must indicate the proceeding number on the service list on which your name appears.